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SUBJECT: SPAIN'S 2008 PROPOSED BUDGET COMBINES SPENDING
INCREASES, FISCAL RESPONSIBILITY

REF: A. MADRID 1942

[B](#). MADRID 1902

[1](#)1. Summary. With only four months left until general elections, the PSOE government has successfully side-stepped attempts led by conservative opposition Partido Popular (PP) representatives in the Chamber of Deputies to derail its 2008 proposed budget. The Administration's budget focuses heavily on social spending, infrastructure, and R&D investment. In addition, it provides increases in its support to international development assistance and all ministries, while projecting a budget surplus for the fourth year running. Following the Administration's well-publicized announcements of additional housing, health, and child benefits, the PP accused the governing party of developing an "electoral budget" while insufficiently funding the autonomous communities. Additional criticisms have focused on the budget's now-overly-optimistic growth and revenue calculations. Despite these criticisms, the budget seems headed for approval by the end of the year with only minor amendments likely. End Summary.

Budget Overview

[1](#)2. On September 25, the Administration unveiled its 2008 budget to the parliament, proposing a spending increase of 7.2 percent in nominal terms over the 2007 budget. With projected spending of 289.9 billion euros and revenues of 301.6 billion euros, this budget anticipates a surplus for the fourth year in a row. Topping the list of priorities are increased spending in R&D and infrastructure (17.4 percent and 9.4 percent increases, respectively), education (14 percent increase), housing (10 percent), pensions (7.2 percent), and international development assistance (27 percent).

[1](#)3. The bill also proposes a 51.1 billion euro contribution towards paying down the public debt. Such a payment would lower the public debt to 34 percent of GDP, the lowest level in more than 20 years. Of the total budget, roughly one-third is projected for social security, slightly over one-third will fund central government operations, and the remaining one-third will be split primarily between paying down the public debt and supporting the autonomous and local governments. Of this last third, an amount of 12.4 billion is allotted for Spain's EU contribution. The

[1](#)4. Among the high-profile spending proposals recently announced by President Zapatero and his cabinet are measures to give families 2,500 euros for each newborn child, measures to cap electricity rates, and measures to subsidize rental housing for young workers and provide free dental care for children ages 7-15. Despite speculation that a slowing economy may not produce the tax revenue anticipated for 2008,

the Administration has nonetheless maintained that the budget, with its surplus cushion, will be able to support these new spending initiatives.

Opposition to the Budget

¶5. During the October 25 Chamber of Deputies budget debate, six parties proposed a record-breaking six "amendments to the total," which if any one had passed, would have forced the Administration to reformulate the budget in its entirety. The PP, which opposed the budget, argued that the Administration's "election-oriented" budget was overly slanted towards currying votes and did not adequately invest in the autonomous communities. The IU (United Left) argued that the proposed budget did not include sufficient social spending, and Catalan parties CiU and ERC argued that the budget failed to address their regional needs, particularly in the wake of this year's electricity and railroad problems in Barcelona.

¶6. The PSOE managed to defeat all six of the "amendments to the total" by a slim margin (177 to 168, with 1 abstention and four absences). The 13 votes in addition to the PSOE's 164 came from the Basque region's National Basque PNV party (7 votes), the Galician BNG (2), the Aragonese CHA (1), the Canary Islands CC (1), and two PP members, one of whom voted with the government by mistake. Catalan parties CiU and ERC ultimately sided against the government.

¶7. Having avoided being sent back to the drawing board, the bill is now with the Chamber of Deputies' Budget committee, which is reviewing piecemeal amendment proposals. The bill

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is expected to be approved by the full Chamber on November 15, after which it will go to the Senate. Although the bill may be slightly amended in either house, it is expected to be approved before the end of the year and take effect January 1, 2008.

Comment

¶8. Given the generous nature of this year's ample budget, the PP has attempted to focus on universal sore points in Spain's politics, including funding for the autonomous communities. The government has also been criticized for its overly optimistic revenue estimates, particularly in the wake of Vice President Pedro Solbes' recent acknowledgement that the assumed 3.3 percent 2008 growth rate on which revenue forecasts were based will more likely be around 3 percent (which is still a few tenths above the estimates of the IMF and some banks). Solbes has made assurances that the surplus cushion will more than amply cover any deterioration due to the reduced growth projection.

¶9. Despite these criticisms, the government seems to be operating from a position of strength on fiscal matters. During the past four years, helped by rapid economic growth, it has managed to steadily increase social spending and investment while maintaining a budget surplus. With growth expected to slow during 2008, whichever government prepares the following year's budget may have a more difficult task.

Appendix

¶10. Breakdown of proposed spending:

Total budget: 349.4 billion euros

¶I. Pensions and miscellaneous: 115.1 billion euros (7.7

percent increase over 2007 budget)
II. Autonomous Communities/Local government: 52.4 billion euros (7.9 percent increase)
III. Debt Repayment: 51.1 billion euros (4.3 percent increase)

IV. Ministry Funding: 104.6 billion euros

-Ministry of Labor and Social Affairs: 26.2 billion euros (11.5 percent increase)
-Ministry of Infrastructure and Public Works: 12.3 billion euros (4.5 percent increase)
-Ministry of Defense: 9.7 billion euros (5.5 percent increase)
-Ministry of Interior: 9.2 billion euros (9.2. percent increase)
-Ministry of Agriculture: 9.1 billion euros (10.2 percent increase)
-Ministry of Industry, Tourism, and Commerce: 8.4 billion (9 percent increase)
-Ministry of Science and Education: 6.6 billion euros (14.8 increase)
-Ministry of Economy and Finance: 5.2 billion euros (3 percent increase)
-Ministry of Environment: 4.2 billion euros (9 percent increase)
-Ministry of Foreign Affairs and Cooperation: 3.4 billion euros (52 percent increase)
-Ministry of Public Administration (2.5 billion euros (10 percent increase)
-Ministry of Justice: 1.5 billion euros (10 percent increase)
-Ministry of Housing: 1.4 billion euros (9.7 percent increase)
-Ministry of Health and Consumption: 893 million euros (14.4 percent increase)
-Ministry of Culture: 874 million euros (5.2 percent increase)
-Other ministries: 2.9 billion (14 percent increase)

V. Miscellaneous Funding: 26.2 billion euros (includes EU funding, parliament, royal housing expenses, etc.)

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